STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 20-07-003:

This is the proposed decision of Administrative Law Judge Elaine Lau. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's March 17, 2022 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ ANNE E. SIMON__________
Anne E. Simon
Chief Administrative Law Judge

AES:avs

Decision **PROPOSED DECISION OF ALJ ELAINE LAU** **(Mailed 2/9/2022)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902E) for Recovery of Undercollection Recorded in the Tree Trimming Balancing Account.	Application 20-07-003

DECISION APPROVING SAN DIEGO GAS & ELECTRIC COMPANY'S RECOVERY OF THE UNDERCOLLECTED BALANCE IN THE TREE TRIMMING BALANCING ACCOUNT

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DECISION APPROVING SAN DIEGO GAS & ELECTRIC COMPANY'S RECOVERY OF THE UNDERCOLLECTED BALANCE IN THE TREE TRIMMING BALANCING ACCOUNT

Summary

This decision approves San Diego Gas & Electric Company's (SDG&E) request to recover $10.4 million of undercollected balance SDG&E recorded in the Tree Trimming Balancing Account (TTBA) in 2019, except for the $41,900 SDG&E spent on customer refusal activities. After reviewing the cost drivers that caused SDG&E to spend more than the authorized level, this decision finds that SDG&E acted reasonably, prudently, and complied with the relevant Commission orders and decisions with its vegetation management work, specifically Decision (D.) 19-09-051 (SDG&E's 2019 General Rate Case Decision) and D.19-05-039 (SDG&E's 2019 Wildfire Mitigation Plan Decision). Other than the costs of customer refusals, SDG&E incurred the costs recorded in the TTBA reasonably.

This decision also directs SDG&E to improve its recording and tracking of costs in the TTBA. Specifically, the decision directs SDG&E to track the activities paid for with the costs recorded in the TTBA and the amount of money SDG&E spent on each of these activities.

This proceeding is closed.

1. Procedural Background

On July 1, 2020, San Diego Gas & Electric Company (SDG&E) filed this Application to recover the undercollected balance of $10.4 million recorded in its Tree Trimming Balancing Account (TTBA) as of 2019, in accordance with Decision (D.) 19-09-051 (SDG&E's 2019 General Rate Case Decision).

The Public Advocates Office (Cal Advocates) filed a timely protest to the Application on August 5, 2020. Other than the Applicant, Cal Advocates is the only party in this proceeding.

A prehearing conference (PHC) was held on August 18, 2020.

The parties filed a Joint Case management Statement on January 20, 2021. Opening Briefs were filed on February 12, 2021. Reply briefs were filed on February 26, 2021.

On July 7, 2021, the assigned Administrative Law Judge (ALJ) issued an email Ruling directing SDG&E to provide additional information. SDG&E and parties provided comments in response to the questions raised in the ALJ's Ruling.[1]

On January 6, 2022, the Commission's Energy Division served to the parties in this proceeding an audit report from the Office of Energy Infrastructure Safety (OEIS) at the California Natural Resources Agency on SDG&E's wildfire mitigation spending. This proceeding examines only a limited portion of SDG&E's wildfire expenses, specifically those related to its vegetation management activities. SDG&E's General Rate Case Phase (GRC) 1 proceedings review the utility's total wildfire mitigation spending and have typically had participation from parties with interests in the utility's wildfire expenses that are not parties in this proceeding. Parties with any concerns regarding OEIS' wildfire expenses audit report may raise them in SDG&E's next GRC Phase 1 proceeding. No parties in this proceeding raised any comments or concerns regarding the report.

[1] This proceeding is submitted on July 28, 2021.

2. The Tree Trimming Balancing Account (TTBA)

The purpose of the TTBA is to record actual tree trimming costs and associated revenues.[2] The TTBA is a two-way balancing account. With a two-way balancing account, SDG&E will have to return any overcollections recorded in the account, but SDG&E also has an opportunity to collect in rates any undercollections recorded in the account. An undercollection occurs when the costs SDG&E incurred are greater than the costs it was authorized to collect.

In D.19-09-051, SDG&E was authorized to collect $24.2 million in revenue requirement for the TTBA, based on a forecast that was derived by averaging the most recent four years of recorded TTBA costs (2013-2016). D.19-09-051 also directed SDG&E to file an application for recovery of any undercollections that exceed 35 percent of the revenue requirement authorized for the TTBA. According to SDG&E, the 2019 undercollected balance in the TTBA is $10.4 million, or 43 percent of the authorized revenue requirement, exceeding the 35 percent threshold set in D.19-09-051.

3. Wildfire Mitigation Plan

In 2018, the California Legislature mandated investor-owned utilities, like SDG&E, to each establish a Wildfire Mitigation Plan (WMP) to address the increasing risk of catastrophic wildfires in their respective service territories. In the WMPs, the utilities set out their proposed plans to reduce the risks of their equipment or facilities igniting a wildfire.

SDG&E submitted its WMP for 2019 to the Commission in Rulemaking (R.) 18-10-007. The Commission approved its 2019 WMP in D.19-05-039. In the 2019 WMP, SDG&E proposed to increase its vegetation management efforts to mitigate wildfire risks. The recovery of SDG&E's vegetation management costs,

[2] SDG&E's Tree Trimming Balance Account, Preliminary Statement.

as well as other costs supporting its WMP activities, was to be addressed in its GRC proceedings.

In the GRC, SDG&E's 2019 vegetation management costs were forecasted to be $24.2 million in revenue requirement, to be collected in rates and recorded in the TTBA. SDG&E recorded its actual vegetation management costs in the TTBA. SDG&E reported that, in 2019, it recorded $33.957 million in actual expenses in the TTBA, which resulted in an undercollected revenue requirement balance of $10.4 million.[3,4]

4. Issues Before the Commission

1. Whether the undercollected balance SDG&E recorded in its TTBA is reasonable.
2. Whether SDG&E reasonably incurred the costs recorded in its TTBA.
3. Whether the costs complied with Commission orders and decisions, including D.19-09-051.
4. What is the appropriate rate recovery mechanism and amortization schedule for the undercollection recorded in the TTBA.
5. Whether there are any safety considerations raised by this application.

5. Parties' Positions

5.1. Summary of SDG&E's Position

SDG&E argues that the undercollected balance recorded in the TTBA is reasonable and that SDG&E incurred the costs recorded in the TTBA reasonably. SDG&E states that it prioritizes cost effectiveness and prudent management in its

[3] SDG&E's Response to the ALJ's Email Ruling Directing SDG&E to Provide Additional Information at 2.

[4] SDG&E records costs in the TTBA in terms of revenue requirement, which is not the same as activity expenditures. *See* Reply Comments of SDG&E Regarding its Response to Email Ruling Directing SDG&E to Provide Additional Information at 2.

vegetation management activities and that the TTBA costs incurred in 2019 were a result of reasonable judgment and good utility practices. SDG&E also asserts that it complied with all Commission orders and decisions, including D.19-09-051 (2019 GRC Decision) and D.19-05-039 (2019 WMP Decision), when it incurred the costs recorded in the TTBA.

According to SDG&E, the $10.4 million undercollection is primarily the result of unanticipated increases in labor costs, increased vegetation management efforts to meet the initiatives set in its approved 2019 WMP, and the costs of outsourcing tree trimming work.[5]

5.2. Summary of Cal Advocates' Position

Cal Advocates argues that SDG&E failed to meet its burden of proof in demonstrating the reasonableness of the TTBA costs. Cal Advocates asserts that SDG&E failed to attribute the $10.4 million in excess costs to specific activities, and that the recorded costs could not be compared with the costs authorized in the GRC.[6] Of the $10.4 million in excess spending, Cal Advocates was able to identify only $6.2 million as increases from 2018 costs.

Cal Advocates recommends that the Commission disallow the recovery of the remaining $4.1 million.[7] Specifically, Cal Advocates recommends disallowing $2.948 million in Enhanced Vegetation Management Program costs, $41,900 in costs associated with customer refusals, $979,637 in costs for outsourced crews, and $128,726 in administrative costs.[8]

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[5] Opening Brief of SDG&E at 2.

[6] Opening Brief of the Public Advocates Office at 5-6.

[7] *Ibid.*

[8] Exhibit 03 at 2.

6. Standard of Review

SDG&E, as the Applicant, has the burden of affirmatively establishing, based upon a preponderance of evidence, the reasonableness of the requests it is seeking in this Application. SDG&E seeks to recover $10.4 million in undercollected balance recorded in the TTBA.

In determining whether the $10.4 million in undercollected balance is reasonable, we examine the activities and drivers that caused SDG&E to incur costs greater than 35 percent of the authorized level,[9] whether the cost increases were the result of a prudent manager complying with the directives and guidance given to the utility at the time, and whether the utility incurred the cost increases reasonably.

7. Discussion

In 2019, SDG&E recorded $33.957 million in expenses in the TTBA, which resulted in the $10.4 million undercollected balance.[10,11] Of these recorded expenses, there were several categories in which recorded costs were 35 percent greater than the authorized level:[12] Administration costs, Cash Discounts, Hazard Tree costs, and Time and Equipment costs. We examine the cost drivers causing the cost increases in each of these categories below.[13] (The Cash

[9] D.19-09-051 established 35 percent as the threshold, over which SDG&E was to file an application of cost-reasonableness for recovery of costs.

[10] SDG&E's Response to the ALJ's E-mail Ruling Directing SDG&E to Provide Additional Information at 2.

[11] SDG&E records costs in the TTBA in terms of revenue requirement, which is not the same as activity expenditures.

[12] The authorized level of costs in each category was calculated by averaging the past four years of recorded costs (2015-2018), consistent with the method D.19-09-051 used to determine the authorized level of costs for the TTBA.

[13] Hazard tree costs and Time and Equipment costs are both subsets of a larger category of Tree-Trimming costs.

Discounts category does not contain any incurred expenses and will not be examined here.)[14]

7.1. Hazard Tree costs

Hazard Tree costs is a subset of the larger category of Tree Trimming costs. Under the Hazard Tree activity, SDG&E records the costs of identifying, trimming, and removing hazard trees, as well as the costs of various wildfire mitigation activities, including increased audits and inspections in the High Fire Threat Districts (HFTD)[15] and the Enhanced Vegetation Management Program. According to SDG&E, the cost increases in Hazard Tree activities were driven by higher than anticipated labor costs and increased hazard tree work.

SDG&E incurred higher than forecasted labor costs in 2019. Labor costs, like other TTBA costs, were forecasted using a four-year average. Historically, according to SDG&E, its labor costs increased 3 percent annually on average. But because SDG&E deferred contractual rate increases since 2015, their contractual rate had a true up of several years of increases, resulting in an 11 percent increase in 2019, far exceeding the forecast.

Besides labor cost increases, increases in Hazard Tree costs were also driven by increased vegetation management work that SDG&E performed to meet the initiatives set in its 2019 WMP. As part of its 2019 WMP, SDG&E implemented the Enhanced Vegetation Management program and conducted additional tree audits and inspections, which resulted in significantly more removal and trimming of hazard trees.

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14 *See* SDG&E's Response to the ALJ's Email Ruling Directing SDG&E to Provide Additional Information at 2.

15 High Fire Threat Districts (HFTDs) are areas that the Commission determined have a high risk of rapidly spreading fires ignited by power lines. (*See* D.17-01-009.)

We find that the cost increases SDG&E incurred in 2019 for Hazard Tree work to be reasonable. Hazard Tree costs increased to levels that exceeded authorized levels by more than 35 percent primarily because of higher than forecasted labor cost increases and increased work on hazard tree management activities. SDG&E could not avoid the labor cost increases, because they were contractual and a result of multiple years of delayed increase. SDG&E provided documentation of the increased level of work it performed in 2019 for tree inspection, trimming, and removal.[16] The increased hazard tree activities (*e.g.,* tree audits, inspections, trims, and removals) SDG&E performed were necessary to meet the objectives set in its WMP and to ensure safe operations of its facilities. For these reasons, we find that SDG&E incurred cost increases for Hazard Tree activities reasonably, and that SDG&E should be allowed to recover these costs.

Other than the costs of the Enhanced Vegetation Management Program, Cal Advocates does not oppose SDG&E's recovery of the other Hazard Tree costs.

7.2. Enhanced Vegetation Management Program

In 2019, SDG&E incurred $2.948 million in costs for Enhanced Vegetation Management Program activities. As proposed in its 2019 WMP, the Enhanced Vegetation Management Program increases vegetation management efforts that go beyond SDG&E's current practices. One of these efforts include keeping a 25-foot line clearance of high-risk tree species in HFTDs.

Cal Advocates opposes SDG&E's recovery of Enhanced Vegetation Management costs, arguing that the Commission has only conditionally

[16] Exhibit 05 at 6.

approved the Enhanced Vegetation Management program and that SDG&E did not meet the specified condition to implement the program. Cal Advocates points to D.19-05-039 (2019 WMP Decision), which allowed SDG&E to pursue the 25-foot clearance "if such a practice is supported by scientific evidence or other data showing that such clearance will reduce risk under wildfire conditions."[17] Cal Advocates argues that SDG&E failed, as required by D.19-05-039, to provide the scientific evidence or data showing that the increased clearance will reduce wildfire risk and, as a result, should not be allowed to recover the costs of these activities.[18] Cal Advocates cites to Commission Resolution WSD-005 which found that SDG&E, in its 2020 WMP, was deficient in providing detailed guidelines for when the increased clearance is feasible and necessary, or scientific evidence or data showing that the increased clearance will reduce wildfire risk.[19]

Refuting Cal Advocates, SDG&E asserts that its implementation of the Enhanced Vegetation Management Program complied with D.19-05-039. SDG&E states that D.19-05-039 permitted SDG&E to implement the 25-foot clearance for enhanced vegetation management "where necessary and feasible if such a practice is supported by scientific evidence or other data showing that such clearance will reduce risk under wildfire conditions."[20] SDG&E argues, because it used data to drive its implementation of the 25-foot clearance, it is therefore in compliance with D.19-05-039.

SDG&E states that, by using historical data to target implementation of the 25-foot clearance, it limited implementation to circumstances that would have

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[17] D.19-05-039, Ordering Paragraph 5.

[18] Opening Brief of the Public Advocates Office at 6.

[19] Opening Brief of the Public Advocates Office at 6-8.

[20] Opening Brief of San Diego Gas & Electric Company at 25.

the biggest impact in reducing wildfire risk. According to SDG&E, its historical data showed 1) vegetation contacts have led to ignitions and catastrophic wildfires in California, 2) vegetation contacts decrease as line clearances increase, and 3) transmission lines, which have a 20-30 foot clearance, have historically had less vegetation contacts.[21] With this data, SDG&E limited implementation of the 25-foot clearance in specific areas of the HFTD where the increased clearance is "necessary and feasible," targeting five specific high-risk tree species known for their propensity for failure, which resulted in work performed in only 20% of the trees in its service territory. SDG&E emphasized that it implemented the enhanced clearance in a targeted and limited manner in 2019.

In response to Cal Advocates' critique of the deficiencies in SDG&E's 2020 WMP, SDG&E argues that, because it is seeking recovery of 2019 costs it incurred from implementing the 2019 WMP, it is not appropriate for the Commission to impose the results of its 2020 WMP in this proceeding, but that the facts in this proceeding should be based on what the utility knew or should have known at the time of implementing its 2019 WMP. SDG&E asserts that data it later provided to the Commission in response to the 2020 deficiencies further supported its enhanced clearance efforts. According to SDG&E, the data showed that the rate of vegetation contacts reduces with increased clearances, with the greatest rate reduction for clearances of greater than 20 feet.[22]

We find SDG&E's implementation of the Enhancement Vegetation Program, which was limited in scale and used historical data to target high risk conditions, complied with D.19-05-039 and was reasonable. D.19-05-039,

[21] Exhibit 06 at 3-4; Opening Brief of San Diego Gas & Electric Company at 25.

[22] Exhibit 06 at 7-8.

Ordering Paragraph 5 states, "San Diego Gas & Electric Company may implement a 25-foot post-trim clearance where necessary and feasible if such a practice is supported by scientific evidence or other data showing that such clearance will reduce risk under wildfire conditions." D.19-05-039 permits SDG&E to implement the increased clearance but specifically directed SDG&E to implement the program where it is "necessary and feasible." SDG&E implemented the 25-foot clearance strategically in places where data has shown that the increased clearance would be most effective in reducing wildfire risk. Because SDG&E strategically implemented the 25-foot clearance on a limited basis in 2019, targeting situations which pose the highest wildfire risk based on historical data, we find that SDG&E's Enhanced Vegetation Management program complied with D.19-05-039.

While Resolution WSD-005 found the Enhancement Vegetation Management program proposed in SDG&E's 2020 WMP to be deficient, our decision in this proceeding is based on whether SDG&E followed the Commission directives at the time of the issuance of D.19-05-039, which was to implement the increased clearance only when "necessary and feasible" and if it was supported by scientific evidence or data. SDG&E, based on its knowledge at the time, used historic data to determine the high-risk conditions that are "necessary and feasible" (*e.g.*, specific tree species and specific conditions in the high threat fire zones) and therefore has complied with D.19-05-039.

For these reasons, we find it reasonable for SDG&E to recover the costs it spent on the Enhanced Vegetation Management program.

7.3. Time and Equipment (T&E) Costs

Time and Equipment (T&E) costs is another subset of the larger category of Tree Trimming costs in which incurred costs exceeded authorized levels by more than 35 percent in 2019. These are expenses paid to contractors who performed tree trimming and removal activities at fixed hourly rates.

SDG&E states that it currently has limited capability in specifically tracking and identifying all costs billed under T&E, because the work is not separately invoiced nor tracked by the contractors.[23]

In this category, Cal Advocates recommends two specific disallowances, the costs of customer refusals and the costs of outsourced contractors.

8. Customer Refusals

Cal Advocates recommends disallowing $41,900 in cost increases for activities related to customer refusals. Cal Advocates argues that, because SDG&E failed to track these costs adequately or provide adequate record of these costs, SDG&E failed to meet its burden of proof in demonstrating that it incurred these costs reasonably.

SDG&E acknowledges that it does not specifically track costs associated with customer refusals, and that refusals were tracked by the contractors.[24] Without a specific cost tracking mechanism, SDG&E estimated the cost of customer refusals by using an estimated average time spent per refusal, multiplied by the hourly contractor rate.[25]

SDG&E, however, argues that the customer refusal costs it incurred are reasonable. SDG&E claims that the increase in customer refusal costs was the result of an increase in contractor rates and in tree trimming work, and states that its refusal practices did not change during the 2019 period.

[23] SDG&E's Response to the ALJ's E-mail Ruling Directing SDG&E to Provide Additional Information at 5.

[24] Exhibit 05 at 11.

[25] *Ibid.*

We agree with Cal Advocates that SDG&E did not meet its burden of proof in showing that the recorded costs for customer refusals were reasonably incurred. To recover these costs, SDG&E needs to demonstrate that it incurred these recorded costs reasonably, even if it has not changed its customer refusal practices. At the minimum, SDG&E needs to show these costs were incurred, corresponded to an appropriate activity (*e.g.*, customer refusals), and that SDG&E managed these costs effectively. By providing only an estimate of the customer refusal costs, however, SDG&E failed to demonstrate that it incurred these costs. Furthermore, SDG&E's failure to properly track these costs demonstrates that SDG&E was not managing these costs effectively. For these reasons, SDG&E's recovery of the increase in customer refusal costs, or $41,900, is denied.

8.1. Outsourced Crews

Cal Advocates also recommends disallowing $979,637 SDG&E spent on hiring outsourced crews, arguing that SDG&E did not demonstrate the need to outsource labor. Since SDG&E has been able to perform similar levels of work without outsourcing labor in previous years, Cal Advocates argues that SDG&E should have used its own employees to perform the work instead of hiring outsourced labor.

SDG&E defended its decision to hire outsourced crews, arguing that the outsourced crews were necessary for SDG&E to remain on schedule with its increased vegetation management needs to meet safety and compliance requirements. SDG&E explains that in 2019 it had to increase its vegetation management efforts, while simultaneously experiencing a statewide shortage of qualified tree trimmers. Other utilities within California, like Pacific Gas and Electric Company, also increased vegetation management efforts and increased hiring of tree trimming contractors during the same period, resulting in a shortage of qualified tree-trimming contractors to hire in the state. Given these conditions, SDG&E resorted to hiring tree-trimmers from out-of-state to perform the necessary vegetation management work.

SDG&E claims that, if it did not outsource the work, it would have fallen behind its vegetation management work, because it had to perform additional vegetation management work but with fewer laborers. SDG&E argues that, although the outsourced crews may have cost more, the outsourced crews allowed SDG&E to meet its safety targets at the lowest cost possible given the circumstances.

Based on these circumstances, specifically the shortage of labor and the increased vegetation management workload, SDG&E was reasonable and prudent in hiring outsourced crews from out-of-state to perform the necessary vegetation management work. The vegetation management work was necessary for SDG&E to maintain safe and reliable operations, as well as to meet safety and compliance obligations. Given the circumstances, SDG&E's hire of outsourced crews was the least cost option available at the time to ensure that the vegetation management was completed on time, even though the outsourced crews were more expensive. Therefore, we find that SDG&E incurred the costs of the outsourced crews reasonably and should be allowed to recover these costs.

8.2. Administrative Costs

Other than expenses directly related to tree trimming activities, the increase in TTBA costs were also driven by increases in administrative costs. SDG&E explains that the increase in administrative costs was primarily driven by the purchase and repair of computers and related equipment to support and track SDG&E's vegetation management activities.[26] Some of the computers were purchased to replace existing aging computers, while some were purchased to support the outsourced crews SDG&E hired.

Cal Advocates recommends disallowing $128,726 for costs associated with the purchase of field computers for SDG&E's contractors, arguing that these costs were not exclusively used for tree-trimming wildfire risk mitigation activities.

SDG&E argues that, because the field computers support tree trimming activities, these costs are appropriate for recovery and recording in the TTBA. These field computers, according to SDG&E, were used to support and manage daily vegetation management activities and operations.

We find the costs for the field computers, which were used to support SDG&E's tree trimming activities, to be appropriate for recording in the TTBA. Therefore, SDG&E incurred the costs of the field computers reasonably and should be allowed to recover these costs.

8.3. Rate Recovery and Amortization Schedule

SDG&E proposes to amortize the undercollection in rates over a 12-month period through its annual electric rate consolidated advice letter submission on January 1 of the year following approval of this Application. SDG&E estimates that the average bill for a typical bundled residential customer living in the inland climate zone and using 400-kilowatt-hours would experience a bill increase of 0.3%, or $0.29.[27]

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[26] SDG&E's Response to the ALJ's E-mail Ruling Directing SDG&E to Provide Additional Information at 2.

[27] Exhibit 02 at 5.

Cal Advocates does not oppose SDG&E's proposed rate recovery mechanism and amortization schedule.

We find SDG&E's proposed rate recovery mechanism and amortization schedule to be reasonable. The estimated bill impact of SDG&E's proposed amortization schedule is modest and is therefore reasonable. SDG&E's proposed recovery through the annual electric rate consolidated advice letter minimizes rate changes and is therefore also reasonable.

8.4. Future TTBA Cost Tracking

Cal Advocates requests that the Commission adopt protocols directing SDG&E to improve its tracking of costs in the TTBA so that SDG&E can provide a comparison of recorded costs and forecasted costs in future filings. According to Cal Advocates, because SDG&E did not track specific costs or activities that were attributed to the $10.4 million in undercollected balance or track specific cost categories such that incurred costs can be compared with forecasted costs, Cal Advocates was unable to conduct a more thorough and detailed analysis of the costs SDG&E requested for recovery.

SDG&E explains that it tracks costs in the TTBA in terms of revenue requirement, which is not the same as activity expenditures.[28] SDG&E admits that it does not track TTBA costs by the activities performed, so it had to use internal billing activity codes and other methods to link costs to specific activities.[29] Though there were activities (*e.g.* the Enhanced Vegetation Management program, customer refusals, enhanced audits, etc.) that SDG&E

[28] Reply Comments of SDG&E regarding its Response to Email Ruling Directing SDG&E to Provide Additional Information at 2-3.

[29] *Ibid.*

identified as cost drivers that caused it to spend over the authorized levels, SDG&E did not track the specific amount of costs it spent on these activities.[30]

In addition, for the T&E costs, SDG&E states that it currently does not have the system capability to track these costs because this work is not separately invoiced nor separately tracked by their contractors.[31] Furthermore, SDG&E admits that there may be possibilities that T&E costs get comingled with other activities such as routine tree trimming.[32]

However, according to SDG&E, it is in the process of improving its tracking of tree-trimming costs with a system upgrade to EPOCH. Expected to be implemented in early 2021, SDG&E states EPOCH would improve its tracking and identification of vegetation management and tree-trimming costs.

To seek recovery of costs recorded in the TTBA in the future, SDG&E shall provide in future filings how it spent the costs that were recorded. For SDG&E to demonstrate that it incurred the TTBA costs reasonably, SDG&E shall show, at a minimum: 1) how costs were spent compared with authorized levels, 2) the activities that these costs supported and how much was spent on each activity, and 3) that the activities were reasonable and appropriate for TTBA recovery. To the extent possible, SDG&E shall also demonstrate how effectively it managed the costs spent. These additional data requirements are intended to improve SDG&E's tracking of incurred costs and help SDG&E manage its costs more effectively in the future.

[30] Exhibit 05 at 10-11.

[31] SDG&E's Response to the ALJ's Email Ruling Directing SDG&E to Provide Additional Information at 5.

[32] *Ibid.*

8.5. Safety Considerations

SDG&E states that its vegetation management practices are integral to safety because they reduce wildfire risk and preserves a safe and reliable electric distribution system. Cal Advocates points to deficiencies in SDG&E's WMP filings.

Safety considerations of SDG&E's vegetation management practices are appropriately addressed in SDG&E's WMP filings. When assessing the reasonableness of SDG&E's requested cost recovery in this proceeding, we have considered how SDG&E followed the plans and objectives laid out in its 2019 WMP, as well as any additional direction the Commission has given to SDG&E at the time of approval of its WMP.

9. Conclusion

Other than the costs of customer refusals, we have determined that the undercollected balance SDG&E recorded in the TTBA is reasonable. We have scrutinized the cost drivers that caused SDG&E to incur costs higher than forecast and found that, in light of the circumstances that SDG&E faced, SDG&E acted reasonably and prudently, and complied with the relevant Commission orders and decisions, specifically D.19-09-051 (2019 GRC) and D.19-05-039 (2019 WMP).

SDG&E recorded in the TTBA all the costs it incurred for vegetation management and related activities and acted prudently to accomplish the ambitious goals and objectives set forth in its WMP to reduce wildfire risks, although it did not track the cost of specific activities, particularly T&E activities, at our desired detail level. Except for the costs of customer refusals, SDG&E also provided the specific amount of costs it spent for each specific vegetation management activity,[33] though it had to cross reference these costs using internal billing codes to link the costs to specific activities.

Overall, we determine that SDG&E acted prudently and reasonably during its first round of WMP implementation to meet ambitious vegetation management objectives that were necessary for safe and reliable operations of its facilities in light of the increased wildfire risks in the state, managing costs the best it could under those circumstances. Therefore, we approve SDG&E's recovery of its undercollected TTBA expenses, except for the costs of customer refusal activities, under the rate recovery mechanism and amortization schedule proposed by SDG&E.

However, in order for SDG&E to seek recovery of TTBA costs in the future, SDG&E must improve its tracking of costs, particularly the amount of money it spends on any particular TTBA activity, and demonstrate how it managed these costs.

10. Comments on Proposed Decision

The proposed decision of ALJ Elaine Lau in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code. Comments allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure were filed on ______by_______ and reply comments were filed on ______________by_______.

Assignment of Proceeding

Alice Reynolds is the assigned Commissioner and Elaine Lau is the assigned ALJ in this proceeding.

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[33] SDG&E's Response to the ALJ's E-mail Ruling Directing SDG&E to Provide Additional Information at 2-5.

Findings of Fact

1. The TTBA is a two-way balancing account that records actual tree trimming costs and associated revenues.

2. SDG&E recorded an undercollected balance of $10.4 million in its TTBA as of 2019, which exceeded the authorized balance by 43 percent.

3. D.19-09-051 authorized SDG&E to collect $24.2 million in revenue requirement for the TTBA, based on a forecast derived by averaging the most recent four years of recorded costs.

4. D.19-09-051 directed SDG&E to file an application for recovery of any undercollections in the TTBA that exceed 35 percent of the authorized revenue requirement.

5. D.19-05-039 approved SDG&E's 2019 WMP which included its proposed plan to mitigate risks of wildfire caused by its electrical equipment and facilities.

6. There were several categories of costs in the TTBA in which recorded costs were 35 percent greater than the authorized level: administration costs, hazard tree costs, and time and equipment costs.

7. Hazard tree costs are the costs of identifying, trimming, and removing hazard trees, as well as the costs of various wildfire mitigation activities, including the costs of increased audits and inspections in the HFTD and the costs to support the Enhanced Vegetation Management Program.

8. Increases in hazard tree costs were primarily driven by higher than typical labor costs and increased work performed on hazard tree management activities.

9. SDG&E could not avoid the labor cost increases because the labor cost increases were contractual and a result of multiple years of delayed increases.

10. The increased hazard tree activities (*e.g.,* tree audits, inspections, trims, and removals) SDG&E performed were necessary to meet the objectives set in its WMP and to ensure safe operations of its facilities.

11. In 2019, SDG&E incurred $2.948 million in costs for the Enhanced Vegetation Management Program, which as proposed in SDG&E's 2019 WMP, includes efforts of maintaining a 25-foot line clearance of high-risk tree species in HFTDs.

12. D.19-05-039 permitted SDG&E to implement the 25-foot clearance where necessary and feasible if such a practice is supported by scientific evidence or other data showing that such clearance will reduce risk under wildfire conditions.

13. SDG&E used historical data to strategically implement the 25-foot clearance on a limited basis in 2019, targeting situations which data has shown pose the highest wildfire risk, specifically in HFTDs and for specific tree species that historically have been prone to failure (*e.g.,* cause ignitions).

14. SDG&E's data shows that the rate of vegetation contacts reduces with increased clearances, with the greatest rate reduction for clearances of greater than 20 feet.

15. Because SDG&E does not specifically track costs associated with customer refusals, SDG&E estimated the cost of customer refusals.

16. By providing only an estimate of the costs incurred, SDG&E failed to demonstrate that it incurred the customer refusal costs.

17. SDG&E's failure of properly tracking customer refusal costs demonstrates that SDG&E was not managing these costs effectively.

18. In 2019, SDG&E had to increase it vegetation management efforts to meet safety and compliance requirements, while simultaneously experiencing a statewide shortage of qualified tree trimmers.

19. Other utilities within California, like Pacific Gas and Electric Company, also increased vegetation management efforts and increased hiring of tree trimming contractors during the same period, resulting in a shortage of qualified tree-trimming contractors to hire in the state.

20. SDG&E hired outsourced tree-trimmers from out-of-state to perform the vegetation management work necessary for SDG&E to maintain safe and reliable operations and meet safety and compliance requirements.

21. Given the labor shortage and the increased vegetation management workload, SDG&E's hire of outsourced crews was the least cost option to ensure that the vegetation management was completed on time.

22. Administrative costs to support tree-trimming activities increased by more than 35 percent over authorized levels, primarily driven by the costs to purchase and repair computers used to support and track vegetation management activities.

23. SDG&E purchased field computers that were used to support and manage daily vegetation management activities and operations.

24. The estimated rate impact of SDG&E's proposed amortization schedule is modest.

25. SDG&E's proposed recovery through the annual electric rate consolidated advice letter minimizes rate changes.

26. Cal Advocates did not oppose SDG&E's proposed rate recovery mechanism and amortization schedule.

27. SDG&E recorded in the TTBA all the costs it incurred for vegetation management and related activities.

28. Except for the costs of customer refusals, SDG&E provided the specific amounts of costs it spent for each specific vegetation management activity.

Conclusions of Law

1. D.19-05-039 permits SDG&E to implement the increased clearance where it is "necessary and feasible," as supported by scientific evidence or data.

2. SDG&E's implementation of the Enhancement Vegetation Program complied with D.19-05-039 and was reasonable.

3. It is reasonable for SDG&E to recover the costs it spent on the Enhanced Vegetation Management program.

4. SDG&E incurred hazard tree costs reasonably and should be allowed to recover these costs.

5. SDG&E's recovery of the cost increases for customer refusal activities, or $41,900, should be denied.

6. SDG&E was reasonable and prudent in hiring outsourced crews from out-of-state to perform some of its vegetation management work.

7. SDG&E incurred the costs of the outsourced crews reasonably and should be allowed to recover these costs.

8. The costs of field computers are appropriately recorded in the TTBA.

9. SDG&E incurred the costs of the field computers reasonably and should be allowed to recover these costs.

10. SDG&E's proposed rate recovery mechanism and amortization schedule are reasonable.

11. SDG&E should provide, in future filings, information on how costs recorded in the TTBA compare with authorized levels, the activities that the

TTBA costs supported and how much was spent on each activity, why these activities were reasonable and appropriate for TTBA recovery, and how SDG&E effectively managed TTBA costs.

12. Safety considerations of SDG&E's vegetation management practices are appropriately addressed in SDG&E's WMP filings.

13. With its vegetation management work, SDG&E acted reasonably, prudently, and complied with the relevant Commission orders and decisions, specifically D.19-09-051 and D.19-05-039.

14. Other than the costs of customer refusals, SDG&E incurred the costs recorded in the TTBA reasonably.

15. It is reasonable to allow SDG&E to recover its undercollected TTBA expenses in rates, except the costs of customer refusal activities.

16. It is reasonable for SDG&E to amortize the undercollected balance over a 12-month period through SDG&E's annual electric rate consolidated advice letter.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company is authorized to collect in rates the $10.4 million balance recorded in the Tree Trimming Balancing Account in 2019, minus $41,900 for the costs of customer refusals, through its annual electric rate consolidated advice letter, with the balance amortized over a 12-month period.

2. To seek future recovery of costs recorded in the Tree Trimming Balancing Account, San Diego Gas & Electric Company shall include the following information in its filings

   a. how costs were spent compared with authorized levels,

b. the activities that these costs supported and how much was spent on each activity,

c. an explanation of why these activities were reasonable and appropriate for recovery through the Tree Trimming Balancing Account, and

d. how the utility effectively managed the Tree Trimming Balancing Account costs.

3. Application 20-07-003 is closed.

This order is effective today.

Dated _________________, at Sacramento, California.